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Manitoba

Annual Report 1990 - 91

Finance

Fiscal Stabilization Fund

Minister of Finance

Room 103
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

His Honour George Johnson
Lieutenant-Governor of the Province of Manitoba
Winnipeg, Manitoba

May It Please Your Honour:

The undersigned has the honour to present the Annual Report of the Fiscal Stabilization Fund for the year ended March 31, 1991.

Respectfully submitted,

Clayton Manness

Clayton Manness
Minister Responsible for the
Fiscal Stabilization Fund

Manitoba

FUND PROFILE

Long-term planning is an essential element of fiscal responsibility. Provincial revenue can be subject to year-to-year volatility while expenditures, such as debt servicing costs, vary significantly with financial market conditions.

When revenue growth is unusually high or exceptional revenues are received, deficits may be sharply reduced or even eliminated. This gives rise to pressures for program spending or tax cuts on the basis of a single year improvement, which cannot necessarily be sustained in the longer term. The 1989 Manitoba Budget Address announced the creation of the Fiscal Stabilization Fund, which would be used as a fiscal shock absorber, helping the province avoid disruption to programs or major tax increases. Withdrawals from the Fund may be made when revenue is constrained or there are exceptional expenditure requirements.

The Fiscal Stabilization Fund was established retroactively at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The legislated purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year and shall credit to the Stabilization Fund any earnings from investment of the Stabilization Fund. All or part of the Fund balance can be transferred to the Consolidated Fund in accordance with the provisions of the Act. The Act restricts the amount drawn from the Fund in any fiscal year to the amount provided in the Budget for that fiscal year.

1990–91 ACTIVITIES

At the beginning of the year, the Fund had assets totalling $302.6 million, which included Preferred Shares of Repap Enterprises Inc. valued at $77.6 million. These shares have been recorded in the Fund at their negotiated redemption value, as set out in the divestiture agreement. The shares will be retained in the Fund pending redemption in accordance with the terms of the agreement. Once redemption occurs, the cash received will be available for the purposes of the Fund. As indicated in Note 3 to the financial statements, recognition of revenue from these shares will be deferred until the cash is received from their redemption.

The remaining assets of the Fund are in cash which is invested in Trust with the Minister of Finance and accorded the market rate of interest. In 1990-91, the Fund received $31.6 million in interest earnings and also received a transfer of $17.7 million from the Consolidated Fund relating to the sale of Manitoba Data Services to STM Systems Corp. in August, 1990. These two revenues increased the Fund balance by $49.3 million.

The Fund balance was decreased by an $85 million transfer to Consolidated Fund Revenue. The amount proposed for transfer in the 1990 Budget Address was $100 million, but the full transfer was not considered necessary.

FISCAL STABILIZATION FUND

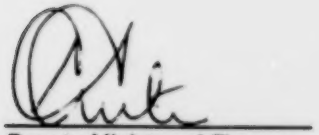
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management of the Department of Finance and have been prepared in accordance with the accounting policies stated in the financial statements. These accounting policies have been applied on a basis consistent with that of the preceding year. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to July 12, 1991.

Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to properly safeguard assets of the Fund.

The responsibility of the Provincial Auditor is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with the accounting policies stated in the financial statements. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

On behalf of Management



Deputy Minister of Finance

July 12, 1991

Office of
the Provincial Auditor

905 – 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

We have audited the statement of financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1991 and the statement of revenue and expenditure and fund balance for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The preferred shares of Repap Enterprises Inc., included in the statement of financial position at $77,638,700, are recorded at their future potential redemption value, as set out in note 3. The unrealized recovery from the future redemption of the preferred shares of Repap Enterprises Inc. recognizes that realization of these shares is dependent on the future profitability of Manfor Ltd., or its successor, and other conditions being fulfilled, well into the future. To the extent that these preferred shares are subject to realization through future redemption, these shares are not an asset of the kind that can be used at March 31, 1991 to fund program expenditure to assist in stabilizing the financial position of the Government.

In our opinion, except for the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Fiscal Stabilization Fund of the Government of the Province of Manitoba as at March 31, 1991 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, CA
Provincial Auditor

Winnipeg, Manitoba
July 12, 1991

FISCAL STABILIZATION FUND
STATEMENT OF FINANCIAL POSITION

As At March 31, 1991
(with comparative figures for March 31, 1990)

ASSETS	1991	1990
Funds on Deposit with the Minister of Finance	$189,323,252	$225,000,000
Preferred Shares of Repap Enterprises Inc. (Notes 3 and 4)	77,638,700	77,638,700
	$266,961,952	$302,638,700
FUND BALANCE AND UNREALIZED RECOVERY		
Fund Balance	$189,323,252	$225,000,000
Unrealized Recovery From Future Redemption of Preferred Shares of Repap Enterprises Inc. (Notes 3 and 4)	77,638,700	77,638,700
	$266,961,952	$302,638,700

FISCAL STABILIZATION FUND
STATEMENT OF REVENUE AND EXPENDITURE AND FUND BALANCE

For the Year Ended March 31, 1991
(with comparative figures for the period ended March 31, 1990)

	1991	1990
REVENUE:		
Interest Earnings	$ 31,573,252	$ 25,000,000
Transfer from Consolidated Fund Revenue	17,750,000	-
	$ 49,323,252	$ 25,000,000
EXPENDITURE:		
Transfer to Consolidated Fund Revenue	85,000,000	-
	$(35,676,748)	$ 25,000,000
Fund Balance, beginning of year	225,000,000	200,000,000
Fund Balance, end of year	$189,323,252	$225,000,000

FISCAL STABILIZATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1991

1. Incorporation and Function

The Fiscal Stabilization Fund was established at March 31, 1989 under the authority of The Fiscal Stabilization Fund Act, which received Royal Assent on December 13, 1989. The purpose of the Fund is to assist in stabilizing the fiscal position of the Government from year to year and to improve long-term fiscal planning. Under the provisions of the Act, the Government may deposit in the Fund any part of the revenue or other financial assets received in the Consolidated Fund in any fiscal year and shall credit to the Stabilization Fund any earnings from investment of the Stabilization Fund. All or part of the Fund balance can be transferred to the Consolidated Fund in accordance with the provisions of the Act.

2. Significant Accounting Policies

a) The Fund's financial statements have been prepared using the accrual basis of accounting.
b) The valuation of the investment in the preferred shares of Repap Enterprises Inc. is based on the potential redemption value per the Share Purchase Agreement, as set out in Note 3.
c) The unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc. is established as an equal and offsetting amount to the valuation of the preferred shares in Repap Enterprises Inc.

3. Share Purchase Agreement

On May 4, 1989, the Government of the Province of Manitoba entered into a Share Purchase Agreement with Repap Pulp & Paper Inc. Under terms of the Agreement, the Government disposed of its interest in Manfor Ltd. to Repap Pulp & Paper Inc. for preferred shares in Repap Enterprises Inc. These shares were transferred to and recorded in the Fiscal Stabilization Fund as at March 31, 1990 at $77,638,700. The shares consist of 316,397 Series D Preferred Shares and 900,000 Series E Preferred Shares, each with a redemption price of $100. Repap Pulp & Paper Inc. has the right to re-acquire up to 450,000 of the Series E shares for $2.22 per share as a development incentive. The valuation of $77,638,700 reflects 316,397 Series D shares at $100, 450,000 Series E shares at $100 and 450,000 Series E shares at $2.22. Such realization through the redemption of these shares is dependent upon the occurrence of future events. Accordingly, the worth of these shares is not presently determinable. Consequently, an equal and offsetting entry in the amount of $77,638,700 is recorded as an unrealized recovery from future redemption of preferred shares of Repap Enterprises Inc.

The investment in Manfor Ltd. previously had been carried in the Government's Consolidated Fund at a nominal book value of $1 as the result of a valuation allowance applied against the investment. Recognition of revenue from the Repap Enterprises Inc. shares will be deferred until cash is received from the redemption of these shares. The unrealized recovery from redemption of Repap Enterprises Inc. shares account will be decreased and Fund balance account increased as cash is received from future redemptions. The redemption realization of these shares is dependent on future profitable operations of Manfor Ltd., or its successor, after May 1, 1989 and other conditions being fulfilled, the more significant of which are set out in Note 4.

4. Redemption of Shares

Under terms of the May 4, 1989 Share Purchase Agreement between the Government of the Province of Manitoba and Repap Pulp & Paper Inc., Repap Pulp & Paper Inc. may redeem the Series D and E Preferred Shares of Repap Enterprises Inc. The redemption is dependent on earnings of Manfor Ltd., or its successor, after May 1, 1989. Redemption of the Series D shares may occur over a period of five consecutive years commencing the later of December 31, 1994 or December 31 of the year in which the long-term debt for construction of Phases I and II of the plant redevelopment is reduced to 50% or less of the original amount. The timing of redemption is also related to issuance of environmental permits for Phase I by June 30, 1989. Delays beyond that date correspondingly extend commencement and completion dates of both Phases I and II and, accordingly, the redemption dates. The environmental permits related to Phase I were issued January 26, 1990. Redemption of the Series E shares may commence once all the Series D shares have been redeemed and may occur over a period of ten consecutive years.

5. Transfer from Consolidated Fund Revenue

Manitoba Data Services was sold to STM Systems Corp. in August, 1990 and proceeds from the sale deposited in the Consolidated Fund. Net cash proceeds from the sale, amounting to $17,750,000, were subsequently transferred to the Stabilization Fund in accordance with the provisions of the Fiscal Stabilization Fund Act.